

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

SAGINAW HOUSING COMMISSION

Financial Statements

June 30, 2006

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FYE JUNE 30, 2006

The Saginaw Housing Commission's (SHC) management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of SHC's financial activity, (c) identify changes in SHC's financial position (its ability to address the next and subsequent year challenges), and (d) identify individual fund issues or concerns.

The Management Discussion and Analysis is presented at the front of each year's financial statements.

Since the Management's Discussion and Analysis (MD&A) is designed to focus on the current year's activities, resulting changes and currently known facts, please read it in conjunction with SHC's financial statements.

FINANCIAL HIGHLIGHTS

- * SHC's net assets decreased by \$605,795 (or 3%) during 2006. Since SHC engages only in business-type activities, the increase is all in the category of business-type net assets. Net Assets were \$19,940,816 and \$19,335,021 for 2005 and 2006 respectively.
- * The business-type activities revenue increased by \$278,608 (or 2.8%) during 2006, and were \$10,117,725 and \$10,396,333 for 2005 and 2006 respectively.
- * The total expenses of all SHC programs increased by \$151,435 (or 1.5%). Total expenses were \$10,504,173 and \$10,655,608 for 2005 and 2006 respectively.

The primary focus of SHC's financial statement (summarized fund-type information) has been discarded. The new and clearly preferable focus is on both the SHC as a whole (SHC-wide) and the major individual funds. Both perspectives (SHC-wide and major fund) allow the user to address relevant questions, broaden a basis for comparison (year to year or PHA to PHA) and enhance SHC's accountability.

SHC-Wide Financial Statements

The SHC-wide financial statements are designed to be corporate-like in that all business type activities are consolidated into columns which add to a total for the entire housing commission.

These Statements include a Statement of Net Assets, which is similar to a Balance Sheet. The Statement of Net Assets reports all financial and capital resources for SHC. The Statement is presented in the format where assets, minus liabilities, equals "Net Assets", formerly known as equity. Assets and liabilities are presented in order of liquidity, and are classified as "Current" (convertible into cash within one year), and "Non-current".

SHC-wide financial statements also include a Statement of Revenues, Expenses, and Changes in Fund Net Assets (similar to an Income Statement). This Statement includes Operating Revenues, such as rental income, Operating Expenses, such as administrative, utilities, maintenance, depreciation, and Non-Operating Revenue and Expenses, such as grant revenue and investment income.

The focus of the Statement of Revenues, Expenses and Changes in Fund Net Assets is the "Change in Net Assets", which is similar to Net Income or Loss.

Fund Financial Statements

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus is now on Major Funds, rather than fund types. The SHC consists of exclusively Enterprise Funds. Enterprise funds utilize the full accrual basis of accounting. The Enterprise method of accounting is similar to accounting utilized by the private sector accounting.

Many of the funds maintained by SHC are required by the Department of Housing and Urban Development (HUD). Others are segregated to enhance accountability and control.

SAGINAW HOUSING COMMISSION FUNDS

Convention Public Housing - Under the Conventional Public Housing Program, SHC rents units that it owns to low-income households. The Conventional Public Housing Program is operated under an Annual Contributions Contract (ACC) with HUD, and HUD provides Operating Subsidy and Capital Grant funding to enable the PHA to provide the housing at a rent that is based upon 30% of household income.

The Conventional Public Housing Program also includes the Capital Fund Program and New Development Program, which are the primary funding sources for physical and management improvements to SHC's properties.

Housing Choice Voucher Program - Under the Housing Choice Voucher Program, SHC administers contracts with independent landlords that own property. SHC subsidizes the family's rent through a Housing Assistance Payment made to the landlord. The program is administered under an ACC with HUD. HUD provides Annual Contributions Funding to enable SHC to structure a lease that sets the participant's rent at 30% of household income.

Other Non-major Funds - In addition to the major funds above, SHC also maintains several non-major funds. Non-major funds are defined as funds that have assets, liabilities, revenues, or expenses that have less than 5% of SHC's total assets, liabilities, revenues, or expenses. Other Non-major funds consists of the following:

Supportive Housing Program - a grant program funded by HUD is designed to promote the development of supportive housing and supportive services, including innovative approaches to assist homeless persons in the transition from homelessness, and to promote the provision of supportive housing to homeless persons to enable them to live as independently as possible.

Shelter Plus Care Program - a grant program funded by HUD is designed to link rental assistance to supportive services for hard-to-serve homeless persons with disabilities (primarily those who are seriously mentally ill; have chronic problems with alcohol, drugs, or both; or have acquired immunodeficiency syndrome (AIDS) and related diseases) and their families. The program provides grants to be used for rental assistance for permanent housing for homeless persons with disabilities.

FINANCIAL CONTACT

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SHC-WIDE STATEMENT

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year. SHC is engaged only in Business-Type Activities.

TABLE 1

STATEMENT OF NET ASSETS

	<u>2006</u>	<u>2005</u>
Current and Other Assets	3,296,889	2,511,576
Capital Assets	<u>16,038,132</u>	<u>17,429,240</u>
Total Net Assets	19,335,021	19,940,816
Current Liabilities	751,841	799,028
Long-Term Liabilities	<u>1,073,993</u>	<u>860,569</u>
Total Liabilities	1,826,834	1,659,597
Net Equity:		
Invested in Capital Assets, Net of Related Debt	16,038,132	17,429,240
Unrestricted	<u>1,470,055</u>	<u>851,979</u>
Total Liabilities & Equity	19,335,021	19,940,816

Major Factors Affecting the Statement of Net Assets

Current assets were increased by \$785,313 and current liabilities were decreased by \$47,187.

Capital assets also changed significantly, decreasing from \$17,429,240 to \$16,038,132. The \$1,391,108 decrease may be attributed primarily to an audit adjustment and an increase in accumulated depreciation.

TABLE 2

The following schedule compares the revenues and expenses for the current and previous fiscal year. SHC is engaged only in Business-Type Activities.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	<u>2006</u>	<u>2005</u>
<u>Revenues</u>		
Tenant Revenue - Rents & Other	1,278,407	1,250,267
Operating Subsidies & Grants	7,792,282	7,593,363
Capital Grants	1,111,160	866,814
Investment Income	47,028	20,595
Other Revenues	<u>167,456</u>	<u>386,686</u>
Total Revenues	10,396,333	10,117,725
<u>Expenses</u>		
Administrative	1,366,972	1,208,562
Tenant Services	63,909	42,462
Utilities	691,540	628,015
Maintenance	1,289,492	1,150,437
Insurance	171,732	170,343
PILOT	53,173	52,606
Other General	548,990	599,774
Extraordinary Maintenance	31,333	11,500
Casualty Losses	(22,375)	10,409
Housing Assistance Payments	5,016,966	5,221,485
Depreciation	<u>1,443,876</u>	<u>1,408,580</u>
Total Expenses	10,655,608	10,504,173
Net Increase or (Decrease)	(259,275)	(386,448)

Major Factors Affecting the Statement of Revenue, Expenses and Changes in Net Assets

Tenant revenue increased slightly. This increase was primarily due to a reduction in vacancies within SHC properties.

Operating Subsidies, Grants, and Capital Grants increased slightly. This increase was primarily due to activity in the area of capital grants with modernization.

Total expenses increased due to increased administrative costs, utilities, maintenance costs, and depreciation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of year end, SHC had \$16,038,132 invested in a variety of capital assets as reflected in the following schedule, which represents a net decrease (addition, deductions, and depreciation) of \$1,391,108 or 9% from the end of last year.

TABLE 3

**CAPITAL ASSETS AT YEAR-END
(NET OF DEPRECIATION)**

	<u>2006</u>	<u>2005</u>
Land and land rights	2,710,057	2,708,803
Buildings	43,472,902	43,473,029
Equipment - Dwelling	697,093	685,531
Equipment - Administrative	1,117,102	1,147,078
Accumulated Depreciation	(32,029,288)	(30,655,467)
Construction in Progress	<u>70,266</u>	<u>70,266</u>
Total	16,038,132	17,429,240

The following reconciliation summarizes the change in Capital Assets.

TABLE 4

CHANGE IN CAPITAL ASSETS

	Business Type Activities
Beginning Balance	17,429,240
Additions	709,342
Adjustments	(656,574)
Retirements	75,829
Net of Depreciation	(75,829)
Depreciation	<u>(1,443,876)</u>
Ending Balance	16,038,132

This year's major additions are:

Business - Type Activities

Capital Fund Program	697,191
Equipment Purchases	<u>12,151</u>
Total Additions	709,342

ECONOMIC FACTORS

Significant economic factors affecting SHC are as follows:

- * Federal funding of the Department of Housing and Urban Development
- * Local labor contract, which affects salary, wages, and benefits
- * Local inflationary, recessionary, and employment trend, which can affect resident incomes and therefore the amount of rental income
- * Inflationary pressure on utility rates, supplies, insurance, and other costs

John C. DiPiero, P.C.

Certified Public Accountant

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Board of Commissioners
Saginaw Housing Commission
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Independent Auditor's Report

I have audited the Business Type Activities of the Saginaw Housing Commission as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Saginaw Housing Commission as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Combining Financial Statements

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

October 30, 2006

SAGINAW HOUSING COMMISSION
Statement of Net Assets
June 30, 2006

ASSETS

C-3029

CURRENT ASSETS

Cash	\$ 2,590,239	
Cash- Restricted	111,069	
Accounts Receivable (net of allowance for doubtful account \$ 385)	28,808	
Accounts Receivable- Other	160,900	
Prepaid Expenses & Inventory	<u>239,789</u>	
Total Current Assets		\$ 3,130,805

NON CURRENT ASSETS

Land	\$ 2,710,057	
Buildings	43,472,902	
Furniture, Equipment- Dwellings	697,093	
Furniture, Equipment- Administrative	1,117,102	
Leasehold Improvements	70,266	
Accumulated Depreciation	<u>(32,029,288)</u>	
Total Non Current Assets		<u>16,038,132</u>

TOTAL ASSETS \$ 19,168,937

SAGINAW HOUSING COMMISSION
Statements of Net Assets
June 30, 2006

LIABILITIES

C-3029

CURRENT LIABILITIES

Accounts Payable	\$	254,868	
Accrued Wages & Payroll Taxes		22,808	
Tenants Security Deposit		108,741	
Accounts Payable- Other Governments		53,173	
Other Current Liabilities		<u>147,167</u>	
<u>Total Current Liabilities</u>	\$		586,757

NONCURRENT LIABILITIES

Pension & Insurance Escrows	\$	837,533	
Compensated Absences-noncurrent		<u>236,460</u>	
<u>Total Noncurrent Liabilities</u>			<u>1,073,993</u>
<u>Total Liabilities</u>	\$		<u>1,660,750</u>

NET ASSETS:

Investment in Fixed Assets, net of related Debt	\$	16,038,132	
Unrestricted Net Assets		<u>1,470,055</u>	
<u>Total Net Assets</u>			<u>19,941,969</u>

The Accompanying Notes are an Integral part of the Financial Statements

SAGINAW HOUSING COMMISSION
Combined Statement of Income, Expenses, and Changes in Net Assets
For the year ended June 30, 2006

REVENUE

Tenant Rental Revenue	\$ 1,275,602	
Tenant Revenue-Other	2,805	
HUD Grants	7,792,282	
Interest Income	47,028	
Other Income	<u>167,456</u>	
<u>Total Operating Revenue</u>		\$ 9,285,173

OPERATING EXPENSES

Administrative	\$ 1,366,972	
Tenant Services	63,909	
Utility Expenses	691,540	
Ordinary Maintenance	1,289,492	
General Expenses	<u>773,895</u>	
<u>Total Operating Expenses</u>		<u>4,185,808</u>
<u>Operating Income (Loss)</u>		\$ 5,099,365

NONOPERATING REVENUE (EXPENSES)

Housing Assistance Payments	\$ (5,016,966)	
Extra Ordinary Maintenance	(31,333)	
Casualty Losses	22,375	
Depreciation Expenses	<u>(1,443,876)</u>	
<u>Total NonOperating Revenue (Expenses)</u>		<u>(6,469,800)</u>
<u>Income (Loss) before Contributions</u>		\$ (1,370,435)

CAPITAL CONTRIBUTIONS

		<u>1,111,160</u>
<u>Changes in Net Assets</u>		\$ (259,275)

Total Net Assets- Beginning	\$ 18,281,219	
Elimination of Indirect Development Cost (soft cost)	(555,377)	
Correction of Prior Years Funding per HUD	<u>41,620</u>	<u>17,767,462</u>
Total Net Assets- Ending		\$ <u>17,508,187</u>

The Accompanying Notes are an Integral part of the Financial Statements

SAGINAW HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended June 30, 2006

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>Business Type Activities</u>
Receipts from Customers	\$ 1,266,985
Payments to Suppliers	(8,072,900)
Payments to Employees	(1,050,017)
HUD Grants	8,903,442
Other Receipts (Payments)	<u>214,484</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>1,261,994</u>
 <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Purchases of Capital Assets	\$ (52,768)
Elimination of soft cost	<u>(555,377)</u>
Net Cash Provided (Used) from Financing Activities	\$ <u>(608,145)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 653,849
Balance- Beginning of Year	<u>1,936,390</u>
Balance- End of Year	\$ <u>2,590,239</u>
 <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>	
Net Profit or (Loss)	\$ (259,275)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	1,443,876
Changes in Assets (Increase) Decrease:	
Restricted Cash	(27,636)
Receivables (Gross)	(166,120)
Prepaid Expenses	69,070
Changes in Liabilities Increase (Decrease):	
Accounts Payable	143,805
Accrued Liabilities	(163,833)
Accrued Compensated Absences	34,268
Security Deposits	640
Accounts Payable- Other Governments	567
Pension & Insurance Escrows	<u>186,632</u>
Net Cash Provided by Operating Activities	\$ <u>1,261,994</u>

The Accompanying Notes are an Integral part of the Financial Statements

SAGINAW HOUSING COMMISSION
Notes to Financial Statements
June 30, 2006

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

Saginaw Housing Commission, Saginaw, Michigan, (Commission) was created by ordinance of the city of Saginaw. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following as of June 30, 2006:

MI 6-1/5,7,8,10,11	Low rent program	628	units
MI 28-V005	Section 8 Vouchers	1197	units
MI 28-C	Shelter Plus Grant	51	units
Supportive Services, Homeless Grant, Capital Funds			

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, the Commission has reported a component unit; the Component unit has been reported as a blending, added to the combined statement of net assets.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board, (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Notes to Financial Statements- continued

Inventory

Inventory is valued at the lower of cost (First in, First out) or market. Inventory consist of expendable supplies held for consumption. The cost of supplies is recorded as an expenditure at the time the inventory is consumed.

Due To and Due From Other Funds

Interfund receivables and payables arise from inter-program transactions and are recorded by all funds affected in the period in which transactions are executed. The due to/from is eliminated in the upper level financial statements, but is represented in the financial data schedule, (FDS).

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	27.5 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

Money Market Accounts	\$ 2,589,989
Petty Cash	<u>250</u>
Financial Statement Total	<u>\$ 2,590,239</u>

Notes to Financial Statements- continued

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Amount</u>	<u>Value</u>
Cash:					
Money Market A/C	\$ 2,589,989	\$	\$	\$ 2,589,989	\$2589,989
Petty Cash	<u>250</u>			<u>250</u>	<u>250</u>
Total Cash	\$ <u>2,290,239</u>	\$	\$	\$ <u>2,290,239</u>	\$ <u>2290,239</u>

In addition to the above, family self sufficiency escrows in the amount of \$ 111,069 are in category 1 as checking accounts.

The Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Note 3: Prepaid Expenses.

Prepaid expenses consist of the following:

Prepaid Insurance	\$ 17,732
Material & Office Supplies	<u>222,057</u>
	\$ <u>239,789</u>

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 2,708,803	\$ 1,254	\$	\$ 2,710,057
Buildings	43,473,029		127	43,472,902
Furniture & Equipment-Dwellings	685,531	11,562		697,093
Furniture & Equipment-Admin	1,147,078	39,952	69,928	1,117,102
Leasehold Improvements	<u>70,266</u>	<u></u>	<u></u>	<u>70,266</u>
	\$48,084,707	\$ 52,768	\$ 70,055	\$48,067,420
Less Accumulated Depreciation	<u>30,655,467</u>	<u>1,443,876</u>	<u>70,055</u>	<u>32,029,288</u>
	\$17,429,240	(1,391,108)	\$	\$16,038,132

Notes to Financial Statements- continued

Note 5: Accrued Liabilities

Other Current Liabilities consist of the following:

Miscellaneous	\$ 19,645
Account Payable to Revolving Fund	<u>127,522</u>
Financial Statement Total	<u>\$ 147,167</u>

Note 6: Retirement.

The Commission participates in the City of Saginaw pension plan. A percentage of all eligible employees wages is contributed to the fund. Statistical information and funding requirements are contained in a separate audit report provided by the City of Saginaw. The Commission separated from the City of Saginaw during 2006, however, the payroll and pension benefits through May 2006 remains with the City of Saginaw.

Note 7: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 54,316,337
General Liability	3,000,000
Automobile Liability	300,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Note 9: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Saginaw Housing Commission

30-Jun-06

MI-006

	Combining Balance Sheet	Low Rent 14.850	Housing Choice Voucher Program	Supportive Housing Program 14.238	Capital Projects Funds 14.872	Shelter Plus Care 14.238	Component Units	TOTAL
	ASSETS:							
	CURRENT ASSETS:							
	Cash:							
111	Cash - unrestricted	1,913,409	643,786			5,184	27,860	2,590,239
113	Cash - other restricted		111,069					111,069
114	Cash - tenant security deposits							-
100	Total cash	1,913,409	754,855	-	-	5,184	27,860	2,701,308
	Accounts and notes receivables:							
121	Accounts receivable - PHA projects							-
122	Accounts receivable - HUD other projects		-	475	160,425	-		160,900
124	Accounts receivable - other government							-
125	Accounts receivable - miscellaneous	-						-
126	Accounts receivable- tenants - dwelling rents	28,349					844	29,193
126.1	Allowance for doubtful accounts - dwelling rents	(385)						(385)
126.2	Allowance for doubtful accounts - other							-
128.1	Allowance for doubtful accounts - fraud							-
129	Accrued interest receivable							-
120	Total receivables, net of allowances for doubtful accounts	27,964	-	475	160,425	-	844	189,708
	Current investments							-
131	Investments - unrestricted	-						-
132	Investments - restricted							-
142	Prepaid expenses and other assets	17,732	-					17,732
143	Inventories	222,057					-	222,057
143.1	Allowance for obsolete inventories	-						-
144	Interprogram - due from	57,237	47,556	-	-		61,291	166,084
146	Amounts to be provided							-
150	TOTAL CURRENT ASSETS	2,238,399	802,411	475	160,425	5,184	89,995	3,296,889
	NONCURRENT ASSETS:							
	Fixed assets:							
161	Land	2,573,360	21,697	-			115,000	2,710,057
162	Buildings	42,062,669	212,550	-	957,462		240,221	43,472,902
163	Furniture, equipment & machinery - dwellings	664,948		-	30,898		1,247	697,093
164	Furniture, equipment & machinery - administration	1,001,639	93,859	-	21,604		-	1,117,102
165	Construction in Progress						70,266	70,266
166	Accumulated depreciation	(31,866,262)	(163,024)	-	(1)		(1)	(32,029,288)
160	Total fixed assets, net of accumulated depreciation	14,436,354	165,082	-	1,009,963	-	426,733	16,038,132
171	Notes and mortgages receivable - non-current							-
172	Notes and mortgages receivable-non-current-past due							-
174	Other assets	-						-
175	Undistributed debits							-
176	Investment in joint ventures							-
180	TOTAL NONCURRENT ASSETS	14,436,354	165,082	-	1,009,963	-	426,733	16,038,132
190	TOTAL ASSETS	16,674,753	967,493	475	1,170,388	5,184	516,728	19,335,021

	LIABILITIES AND EQUITY							
	LIABILITIES:							
	CURRENT LIABILITIES							
311	Bank overdraft							-
312	Accounts payable ≤ 90 days	251,891	2,696			281		254,868
313	Accounts payable > 90 days past due							-
321	Accrued wage/payroll taxes payable	15,620	7,188					22,808
322	Accrued compensated absences	-						-
324	Accrued contingency liability							-
325	Accrued interest payable							-
331	Accounts payable - HUD PHA programs		-					-
333	Accounts payable - other government	53,173						53,173
341	Tenant security deposits	107,619				1,122		108,741
342	Deferred revenues	-				-		-
343	Current portion of Long-Term debt - capital projects							-
345	Other current liabilities	19,645	-			-		19,645
346	Accrued liabilities - other	87,484	-			40,038		127,522
347	Inter-program - due to	-	-	475	160,425	5,184		166,084
310	TOTAL CURRENT LIABILITIES	535,432	9,884	475	160,425	5,184	41,441	752,841
	NONCURRENT LIABILITIES							
351	Long-term debt, net of current- capital projects							-
352	Long-term debt, net of current- operating borrowings							-
353	Noncurrent liabilities- other	716,878	107,760				12,895	837,533
354	Accrued Comp Absences-non current	210,894	25,566					236,460
350	TOTAL NONCURRENT LIABILITIES	927,772	133,326	-	-	-	12,895	1,073,993
300	TOTAL LIABILITIES	1,463,204	143,210	475	160,425	5,184	54,336	1,826,834
	EQUITY:							
501	Investment in general fixed assets							-
	Contributed Capital:							
507	Other contributions							-
508	Total contributed capital	-	-	-	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	14,436,354	165,082	-	1,009,963	-	426,733	16,038,132
	Reserved fund balance:							-
509	Reserved for operating activities							-
510	Reserved for capital activities							-
511	Total reserved fund balance	-	-	-	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-	-	-	-
512.1	Unrestricted Net Assets	775,195	659,201		-		35,659	1,470,055
513	TOTAL EQUITY	15,211,549	824,283	-	1,009,963	-	462,392	17,508,187
600	TOTAL LIABILITIES AND EQUITY	16,674,753	967,493	475	1,170,388	5,184	516,728	19,335,021

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Saginaw Housing Commission

30-Jun-06

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Supporting Housing Program 14.238	Capitol Projects Fund 14.872	Shelter Plus Care 14.238	Component Untis
Line Item #							
	REVENUE:						
703	Net tenant rental revenue	1,266,869					8,733
704	Tenant revenue - other	2,805					
705	Total tenant revenue	1,269,674	-	-	-	-	8,733
706	HUD PHA grants	1,346,346	5,690,361	424,298	1,111,160	331,277	
708	Other government grants						
711	Investment income - unrestricted	43,006	3,709				313
712	Mortgage interest income						-
714	Fraud recovery						
715	Other revenue	121,440	41,995				4,021
716	Gain or loss on the sale of fixed assets	-	-				
720	Investment income - restricted						
700	TOTAL REVENUE	2,780,466	5,736,065	424,298	1,111,160	331,277	13,067
	EXPENSES:						
	Administrative						
911	Administrative salaries	361,154	262,700			-	7,457
912	Auditing fees	5,200	1,295				
913	Outside management fees	-	-				
914	Compensated absences	20,178	6,613				-
915	Employee benefit contributions- administrative	205,051	148,160			-	4,699
916	Other operating- administrative	189,097	29,439	-	101,197	22,706	2,026
	Tenant services						
921	Tenant services - salaries	-					
923	Employee benefit contributions- tenant services	-					
924	Tenant services - other	63,909					
	Utilities						
931	Water	207,814					2,099
932	Electricity	229,071					613
933	Gas	251,943					-
934	Fuel	-					
935	Labor						
937	Employee benefit contributions- utilities						
938	Other utilities expense	-					
	Ordinary maintenance & operation						
941	Ordinary maintenance and operations - labor	418,706					
942	Ordinary maintenance and operations - materials & other	192,362					-
943	Ordinary maintenance and operations - contract costs	283,292	156,656				757
945	Employee benefit contributions- ordinary maintenance	237,719					
	Protective services						
951	Protective services - labor						
952	Protective services- other contract costs						

[illegible]

SAGINAW HOUSING COMMISSION
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3029 Operating Subsidies	\$ <u>1,346,346</u>
* <u>CFDA 14.871 Housing Assistance Programs</u>	
C-3099V Section 8 Housing Choice Vouchers	\$ <u>5,690,361</u>
* <u>CFDA 14.235 Supportive Housing Program</u>	
C-3029 Special Needs	\$ <u>424,298</u>
* <u>CFDA 14.238 Shelter Plus Care</u>	
C-3029 Shelter Plus Care Program	\$ <u>331,277</u>
* <u>CFDA 14.872 Public Housing Capital Fund Program</u>	
C-3029 Capital Fund Program	\$ <u>1,111,160</u>
	\$ <u>8,903,442</u>

*Connotes Major Program Category

Notes to Federal Awards Schedule:

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Notes to Federal Awards Schedule- continued

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 54,316,337
General Liability	3,000,000
Automobile Liability	300,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

SAGINAW HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2006

The prior audit of the Saginaw Housing Commission for the period ended June 30, 2005, contained two audit findings; the following represents the corrective action taken by the Commission:

Finding 1: Unauthorized Land Purchase- HUD has instructed the Commission to sell the land; however, some questions have arose concerning bona fide purchasers- this is a repeat finding.

Finding 2: Tenant Accounting Discrepancies- Section 8 Vouchers; 5 files lacked third party verification, 2 files had the wrong utility allowance; 5 files were not re-examined in a timely manner. The aforementioned discrepancies were resolved satisfactorily, however new discrepancies were detected in the current audit period.

SAGINAW HOUSING COMMISSION
Report on Compliance Applicable with Requirements to
Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
June 30, 2006

Compliance

I have audited the compliance of Saginaw Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Saginaw Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Saginaw Housing Commission's management. My responsibility is to express an opinion on Saginaw Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Saginaw Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Saginaw Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Low Rent Public Housing:		
Unauthorized Land Acquisition	03-03	Allowable Costs/cost Principles
HUD Monitoring Review	06-01	Eligibility
Office of Inspector General audit	06-02	Allowable Costs/cost Principles
Section 8 Housing Choice Vouchers:		
Tenant Accounting Discrepancies	06-03	Eligibility
HUD Monitoring Review	06-04	Eligibility

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Supportive Housing/Shelter Plus:		
Annual Program Reports untimely	06-04	Reporting; Subrecipient monitoring

In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The management of Saginaw Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Saginaw Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgement, could adversely affect the Commissions ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

October 30, 2006

SAGINAW HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
June 30, 2006

I have audited the financial statements of Saginaw Housing Commission, Saginaw, Michigan, as of and for the year ended June 30, 2006, and have issued my report thereon dated October 30, 2006. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Saginaw Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Saginaw Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

October 30, 2006

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Public and Indian Housing	Yes	\$ 513,000	03-3; 06-1 ;06-2
Housing Assistance Programs	Yes	None	06-3; 06-4
Supportive Housing Program	Yes	None	06-4
Capital Fund Program	Yes	None	N/A
Shelter Plus Care	Yes	None	06-4

SAGINAW HOUSING COMMISSION
Schedule of Findings, Recommendations and Replies
June 30, 2006

The following findings of the Saginaw Housing Commission, for the year ended June 30, 2006, was discussed with the Executive Director, Mr. Duane L. Walker, in an exit interview conducted October 30, 2006.

Finding 03-3 Unauthorized Land Acquisition

The Commission purchased a track of land for future housing development for \$ 506,860 using Low Rent reserves. The reserves represent federal dollars and therefore fall under the purview of HUD's authority. The Commission was required under the Annual Contributions Contract (ACC) to obtain permission from HUD to acquire the land; the Commission failed to obtain permission, therefore, the acquisition is a questioned cost. This is a repeat finding.

Recommendation

The acquisition of the property in question using Public Housing operating reserves required consultation and authorization from HUD according to the ACC. The Contract has many provisions involving the continued funding of the Commission; violations of the Contract could result in a loss of future funding.

I recommend the Commission observe all the provisions of the ACC; the Commission must discuss the acquisition of this parcel with HUD. The purchase could be approved as planned or HUD may require the Commission sell the land.

Reply

Since the employment of the current Executive Director on December 1, 2004, the Saginaw Housing Commission has worked in good faith with the HUD Detroit Field Office to resolve this issue. The Commission has kept the Field Office apprised of its efforts in this regard prior to and during the course of the OIG audit, which commenced on April 19, 2006:

- On December 10, 2004, the new Executive Director received initial correspondence from the Field Office regarding this property.
- On January 25, 2005 a meeting was held between Robert Nelson, Director of Public Housing, Detroit Field Office and the new Executive Director to further discuss this property.
- On February 25, 2005 and March 4, 2005, the SHC met with commercial realtors to discuss the best way to proceed with the sale of the property.
- On March 2, 2005, the Commission advertised RFQ# 05-04 for appraisal services to update the value of the property prior to its listing.
- The RFQ closed on March 14, 2005
- On April 25, 2005, an appraiser was duly selected.
- On August 1, 2005, the SHC received the updated appraisal.

Finding 3-3, continued

- On November 6, 2005, issued a Request for Proposals (RFP) for qualified Commercial Realtors to list and sell the property.
- Received one response by November 18, 2005 bid opening.
- Reissued RFP for Qualified Commercial Realtors on December 11, 2005.
- Bids were to be received by December 29, 2005. No bids were received.
- Board approved negotiations of contract with sole respondent to initial solicitation at January 17, 2006 SHC Board meeting.
- Contract with selected Realtor entered on April 20, 2006.
- Property listed for sale by Realtor on April 20, 2006.
- Sale activities are ongoing.

The HUD Detroit Field Office has acknowledged in an August 31, 2006 correspondence to the Commission that it recognizes the progress the Commission has made to date in addressing this issue. The Housing Commission Board of Commissioners and its current Executive Director have and will continue to work diligently to resolve this matter in the best interest of its residents and to the satisfaction of HUD.

Finding 06-1 HUD Monitoring Reviews.

The Office of Public Housing conducted the following reviews of the Saginaw Housing Commission (SHC):

- Rental Integrity Monitoring Review (RIM)
- Management Assessment Sub-System (MASS)
- Exigent Health and Safety Certification Review (EHS)
- Section 8 Management Assessment Program (SEMAP)

A report was issued dated October 4, 2006 addressing the above reviews; the following represents an overview of the issues:

RIM review- no findings or changes.

MASS review-

Sub-Indicator:

- 1 & 2- no findings or changes.
- 3- HUD was unable to validate the 6/30/05 data for component 1
- 4- no findings or changes.
- 5- no findings or changes.
- 6- no assessment.

EHS review- No findings or changes.

SEMAP review-

Indicator: 1,2, & 3- non compliance noted.

Recommendation

I recommend the Commission continue to work with HUD to resolve the above discrepancies.

Reply

Included below are the SHC's responses to the above reviews that were forwarded to HUD.

Response to 2006 SEMAP Quality Control Review Findings and the Finding for the FYE 2005 MASS Certification Review

The Saginaw Housing Commission (SHC) has reviewed in its entirety, the results of the MASS Certification Review conducted by the Department of Housing and Urban Development (HUD) from August 14-18, 2006 and the SEMAP Quality Control Review conducted by the Detroit Field Office from September 11-13, 2006 for the reporting period ending June 30, 2006. The SHC accepts the findings of the review and the resulting adjustments in score and does hereby submit its response to the requested corrective actions for each of the four findings on the SEMAP review and the one finding identified on the MASS review:

Finding 6-1, continued

MASS CERTIFICATION REVIEW

Sub-Indicator No. 3 - Work Orders

Finding No. 3-1: The Saginaw Housing Commission did not satisfy HUD's minimum standard for correcting emergency work orders within 24 hours.

Response: The SHC had in fact presented to the HUD reviewers the data that indicated that the previously submitted score was inaccurate. The SHC, being aware of its previous oversights in monitoring of the emergency work orders, has been reviewing and monitoring emergency work order performance on a more consistent basis. This process has resulted in the SHC certifying to a emergency work order completion rate of 98.8% for FYE 2006. Current data indicates that the SHC is above the HUD minimum standard at this juncture of the current fiscal year and continues to improve. SHC staff continues to review work order data on a daily, weekly and monthly basis in order to prevent a recurrence of this situation.

SEMAP QUALITY CONTROL REVIEW

Indicator No. 1 - Selection from the Waiting List

Finding #1 - The Housing Commission did not establish required quality control samples or maintain documentation to support compliance with SEMAP Indicator No.1.

Response: The Saginaw Housing Commission has developed a corrective action plan that requires the development of quality control procedures and tracking mechanisms that comply with HUD requirements. The procedure establishes quality control sampling for applicants reaching the top of the waiting as well as those admitted to the program. It provides for training of staff on these new tools for waiting list management. The plan also includes vendor training on the agency's automated waiting list.

Indicator No. 2 - Reasonable Rent

Finding #2 - The Housing Commission's quality control sample did not support compliance with SEMAP Indicator No. 2.

Response: The Saginaw Housing Commission has changed its practice to conform to the requirements of the Administrative Plan. Effective, November 1, 2006, staff is using three applicable comparable properties upon which to base its determination of rent reasonableness. Such analysis and determination is fully documented and placed in the client file.

Finding 6-1, continued

Indicator No. 3 - Determination of Adjusted Income

Finding No. 3 - The Housing Commission's quality control sample did not support compliance with SEMAP Indicator No. 3.

The SHC has developed a corrective action plan to implement all of the requirements as identified in the on-site review. The plan specifically requires establishing the required quality control sample, developing quality control review procedures, correction of errors for tenants listed in Attachment IV, developing a tenant file review checklist that requires signature and date and follow up on all errors disclosed.

Indicator No. 5 - HQS Quality Control Inspections

The Saginaw Housing Commission has incorporated into its CAP the recommendation to improve its sampling methodology to ensure that the QC sample includes a cross section of neighborhoods where units are leased in the agency's jurisdiction.

Indicator No. 6 - HQS Enforcement

Finding No. 4 - Housing Commission's quality control sample did not comply with the standards for SEMAP Indicator No. 6

The SHC has developed a corrective action plan that addresses the deficiencies noted in the review. The quality control samples will be selected from the universe of failed inspections and 100% quality control will be exercised over immediately hazardous and/or life threatening emergencies. Quality control tracking procedures and form will be developed and submitted to HUD for review.

Finding 06-2 Office of Inspector General (OIG) Audit

HUD requested that the OIG conduct an audit; a report was issued in October 2006. The objective of the audit was to determine whether the Commission properly used its program funds subject to its annual contributions contract, other agreements, or federal regulations for the benefit of its program residents.

Three issues have been raised as a result of the audit:

- Fairground Purchase
- Approval of roof top antenna contracts by HUD
- Inappropriate expenditures of roof top contract funds

Recommendation

The Commission has just received the draft report and has responded to the findings as follows:

- Fairground Purchase

The purchase contract was entered into under the previous director's administration; the Commission's position is that the Fairground Purchase is being resolved working with the HUD area office- this finding has appeared in the past three audits as well as this report, finding # 1 above.

- Approval of roof top antenna contracts by HUD

Just as above, the contract(s) were entered into under the previous director's administration; however, the question of needing HUD approval is being questioned by the Commission. The contracts were at fair market value and therefore do not require prior HUD approval per the Annual Contributions Contract, section 203.

- Inappropriate expenditures of rooftop contract funds

The Commission used the roof top funds to pay for resident programs, and is challenging the inappropriate nature of the expenditures.

I recommend the Commission continue to work with HUD to resolve the Fairground land purchase; whether the Commission's position is correct on the other issues is unknown at this time, however, I recommend the Commission work to resolve those matters as well.

Reply

Included below, is the SHC's complete response to the Office of the Inspector General:

September 21, 2006

Mr. Ronald Farrell, Assistant Regional Inspector General for Audit
United States Department of HUD-Office of Inspector General
200 North High Street, Room 334
Columbus, Ohio 43215-2499

Finding 6-2, continued

SUBJECT: Saginaw Housing Commission Audit- Audit Report Number 2006-CH-101X

Dear Mr. Farrell:

The Saginaw Housing Commission would like to submit the following comments to the findings noted in the above-cited audit:

Finding 1: The Commission Improperly Used Its Program Funds to Purchase Property without HUD approval.

SHC Response: Since the employment of the current Executive Director on December 1, 2004, the Saginaw Housing Commission has worked in good faith with the HUD Detroit Field Office to resolve this issue. The Commission has kept the Field Office apprised of its efforts in this regard prior to and during the course of the OIG audit, which commenced on April 19, 2006:

- On December 10, 2004, the new Executive Director received initial correspondence from the Field Office regarding this property.
- On January 25, 2005 a meeting was held between Robert Nelson, Director of Public Housing, Detroit Field Office and the new Executive Director to further discuss this property.
- On February 25, 2005 and March 4, 2005, the SHC met with commercial realtors to discuss the best way to proceed with the sale of the property.
- On March 2, 2005, the Commission advertised RFQ# 05-04 for appraisal services to update the value of the property prior to its listing.
- The RFQ closed on March 14, 2005
- On April 25, 2005, an appraiser was duly selected.
- On August 1, 2005, the SHC received the updated appraisal.
- On November 6, 2005, issued a Request for Proposals (RFP) for qualified Commercial Realtors to list and sell the property.
- Received one response by November 18, 2005 bid opening.
- Reissued RFP for Qualified Commercial Realtors on December 11, 2005.
- Bids were to be received by December 29, 2005. No bids were received.
- Board approved negotiations of contract with sole respondent to initial solicitation at January 17, 2006 SHC Board meeting.
- Contract with selected Realtor entered on April 20, 2006.
- Property listed for sale by Realtor on April 20, 2006.
- Sale activities are ongoing.

Finding 6-2, continued

The Commission has received interest from a local developer and is in discussion for possible sale and redevelopment of this site, which was the Commission's initial intent. The proposal and draft development agreement will be forwarded to the HUD Detroit Field Office for consideration at such time as deemed appropriate. The HUD Detroit Field Office has acknowledged in an August 31, 2006 correspondence to the Commission that it recognizes the progress the Commission has made to date in addressing this issue. The Housing Commission Board of Commissioners and its current Executive Director have and will continue to work diligently to resolve this matter in the best interest of its residents and to the satisfaction of HUD.

Finding 2: The Commission Failed to Obtain HUD Approval and Inappropriately Used Funds Regarding Its Rooftop Leases

SHC Response: The OIG report cites section 203 of the Annual Contributions Contract as follows:

"...a local authority shall, unless otherwise approved by the government, use the dwellings in the projects solely for the purpose of housing families of low income as provided in this contract. It shall not, without the approval of the government, grant any concession, licenses, or permits to use any nondwelling space or facility in any project AT LESS THAN FAIR RENTAL VALUE..."

The rooftop leases that the OIG contends were entered into without HUD's approval, were at fair rental value and therefore are exempt from HUD's approval per the language cited above.

The OIG contends that the Commission inappropriately used funds from these rooftop leases for, in part, the mayor's scholarship program, a farewell reception and dinner, and an inaugural ball honoring the City's mayors. The OIG report cites The Housing Act of 1937, section 9(1), which states in part:

"...Any such nonrental amounts retained shall be used only for low-income housing or to benefit the residents assisted by the public housing agency..."

Senior citizen residents of public housing attended these events. It was the contention of the Commissioners that participation in these charitable events were beneficial to the quality of life of the senior residents who looked forward to the opportunity to attend these activities. Other local major corporations also sponsored tables at these events for these residents. Since the funds were used to benefit the residents the Commission does not agree with the OIG finding in this regard.

The OIG contends that the Commission inappropriately used this revenue to pay for meals and refreshments for board members during board meetings. Under Michigan law, Subsection (4) of MCL 125.654:

Finding 6-2, continued

"(4) A member of the commission may receive compensation for actual expenses incurred by serving as a member of the commission in an amount determined by the commission..."

The Commission has historically recognized that its Board members incur expenses for serving on the Board. Monetary compensation has not been provided, but it had been determined some time ago, that meals/refreshment would be provided during the meetings in lieu of monetary compensation. The Commission believes that its actions in this regard have been within the intent of the statute.

Finding 06-3 Tenant Accounting Discrepancies- Section 8 Housing Choice Vouchers

22 files were tested, the following discrepancies were noted:

- 7 files had income verification problems
- 9 files were late with re-examinations
- 7 files lacked rent reasonableness comparisons

Recommendation

The Annual Contributions Contract and HUD notices specify the requirements concerning leasing and continued occupancy.

The Commission has had a number of key personnel changes in the Section 8 program over the past several years; a Section 8 Supervisor has been hired in May 2006.

I recommend the Commission follow all HUD requirements concerning tenant leasing and continued occupancy.

Reply

The Commission acknowledges the findings. The deficient files have been corrected.

The Commission duly notes the existence of the late re-examinations and is working diligently to decrease the incidence of this finding.

Included below are the Commission's responses to Finding 06-3 Tenant Accounting Discrepancies for the Section 8 Housing Choice Voucher Program:

Out of 22 files tested, the following discrepancies were noted:

- 7 files had income verification problems
- 9 files had late re-examinations
- 7 files lacked rent reasonableness comparisons

Following is a list of the findings and the corrections made:

1. Client# V209

Finding:

- Late re-examination
- Rent reasonableness not completed

Remedy:

Late re-examination duly noted. Staff will make concerted effort to decrease number of late reviews.

Rent reasonableness comparison was completed and placed in participant's file.

Finding 6-3, continued

2. Client# V088

Finding:

- Correct number of 52 weeks of unemployment benefits were not used
- Late re-examination

Remedy:

Submitted corrected 50058 to reflect the 52 weeks of Unemployment Benefits; rent was changed to reflect the correct amount of \$107.00 based on the 52 weeks of unemployment benefits.

3. Client# V079

Finding:

- Missing documentation for third party verification of income, no proof in file.
- Late Re-Examination

Remedy:

The Commission is in the process of obtaining the missing documentation to verify the third party verification of income and provide proof. Late re-exam duly noted.

4. Client# V550

Finding:

- Food stamps were not included on the 50058
- Saving account information was not included on the 50058

Remedy:

Submitted corrected 50058 to include missing food stamp amount and savings account information. Rent calculation unaffected by these corrections.

5. Client# V732

Finding:

- Incorrect amount of food stamps were input on 50058
- Late Re-examination

Remedy:

Submitted corrected 50058 to include correct amount of food stamps. Rent calculation unaffected by this correction. Late re-exam duly noted

Finding 6-3, continued

6. Client# V1313

Finding:

- Incorrect amount of cash benefits from Department of Human Services (DHS) was used reflecting \$689.00; the amount verified in the file was \$704.00
- Late Re-examination

Remedy:

Submitted corrected 50058 to reflect correct amount of cash benefits of \$704.00 as indicated on the third party verification. Late re-exam duly noted.

7. Client# V128

Finding:

- Could not verify how income amount was determined. No supporting documentation in file.
- Rent Reasonableness was not completed

Remedy:

On the 50058 previously submitted, the letter "T" had been handwritten over an incorrect code of SS (Social Security), and was not properly corrected in MTCS. The supporting third party verification used was received from DHS on 3/22/05 indicating the FIP grant cash assistance to be \$578.00, which is indicated on the 50058. A corrected 50058 was submitted to reflect the correct code used on Section 7 No. 7b Income Code "T" for TANF assistance. Rent calculation unaffected.

A Rent Reasonableness comparison was completed and placed in participant's file.

8. Client# V477

Finding:

- Checking account information was not verified
- Late re-examination
- Rent Reasonableness not completed

Remedy:

Head of household's checking account information was verified; however, other adult household member's checking account information was not verified. Checking account of other adult household member's will be verified and included on a corrected 50058.

A Rent Reasonableness comparison was completed and placed in participant's file.

Finding 6-3, continued

9. Client# 88-0401

Finding:

- Rent Reasonableness not completed

Remedy:

A Rent Reasonableness comparison was completed and placed in participant's file.

10. Client# V010

Finding:

- Late Re-Examination
- Rent Reasonableness not completed

Remedy:

A Rent Reasonableness comparison was completed and placed in participant's file. Late re-exam duly noted

11. Client# V107

Finding:

- Late Re-Examination

Remedy:

Ensure future re-examinations are completed in timely manner.

12. Client# V1804

Finding:

- Late Re-Examination

Remedy:

Ensure future re-examinations are completed in a timely manner.

13. Client# V1294

Finding:

- Income Verification
- Lacked Rent Reasonableness

Remedy:

The Commission has obtained the missing documentation to verify the third party verification of income.
A Rent Reasonableness comparison was completed and placed in participant's file.

Finding 06-4 Supportive Housing & Shelter Plus Annual Reports Late

The Commission is the Grant Administrator for several Supportive Housing & Shelter Plus programs. The Commission has the responsibility to prepare Annual Program Reports (APR's) within 90 days after the grant(s) fiscal year end and forward the reports to federal agencies. The APR's are used to gather statistical data and program results; as of the date of this audit, several APR's for the grant years ending on or before June 30, 2006 were late.

Recommendation

The aforementioned grants are competitively awarded; non compliance with reporting requirements could jeopardize future grants. In addition to the possible impact on future funding, the Commission needs to address the non compliance issues concerning the existing grants.

The Commission acts as grant administrator for 6 Supportive Housing and 7 Shelter Plus grants; as of the date of this audit 4 Supportive Housing APR's are late. During the fiscal year, other APR's were also late and the Commission's ability to draw funds for those grants was temporarily suspended.

As of the date of this audit, the following grants had been suspended in LOCCS due to late reporting:

MI28B410001	covering 7/1/05 to 6/30/06,	due 9/28/06
MI28B410002	covering 7/1/05 to 6/30/06,	due 9/28/06
MI28B410003	covering 7/1/05 to 6/30/06,	due 9/28/06
MI28B210002	covering 8/1/05 to 7/31/06,	due 10/29/06
MI28B210004	covering 8/1/05 to 7/31/06,	due 10/29/06

(One APR had been submitted to HUD timely, however, still appears as due above)

I recommend the Commission put controls in place to insure timely reporting for all federal grants.

Reply

The Saginaw Housing Commission receives and reviews all annual APR's for the Continuum of Care SNAP and Shelter Plus Care Grants and forwards them to the Detroit HUD Field office and the APR Editor in Washington, DC.

With the exception of one Agency that experienced personnel changes and a shifting of duties, the APR's for the above mentioned grants were forwarded to Detroit and Washington prior to the due dates, but were not logged into the LOCC System by the appropriate HUD official. After it was determined that the LOCCS draws were suspended, SHC staff in the person of the Executive Assistant, contacted the Detroit HUD Field Representative and re-submitted the documents via FedEx and e-mail and expected release of the funds to take place once the documentation was received. The Field Representative explained that since APR's that are sent to the Field office goes to Ms. Jeanette Harris' office for distribution, there are times that received items may incorrectly be re-distributed throughout the HUD offices. After it was brought to SHC staff's attention that the hold was still in place, the Executive Assistant contacted the Field Representative again and was informed that it had not been done in oversight. The HUD Field Representative subsequently released the holds.

Finding 6-4, continued

It is beyond the Saginaw Housing Commission's control to ensure that documentation sent to HUD is routed to the appropriate person and logged accordingly. This is an issue that is not specific to Saginaw but has been directed to HUD at numerous conferences that I have attended and it continues to be a problem.

The Saginaw Housing Commission has developed a process, to take effect immediately, that will routinely monitor the upcoming due dates of all APR's and forward the dates to the appropriate agencies prior to the due dates and to also monitor the current status of the reports as they are forwarded to HUD. E-mail, telephone call, or fax confirmation that each APR is received and logged as such in LOCCS will be requested from the HUD Field Representative. Once this understanding is obtained from HUD, it will enable the Saginaw Housing Commission to assist the Field Rep in estimating receipt of specific documentation and immediately following up with personnel responsible for distribution if it is not received in a timely manner.

This process will require participant agencies to submit their APR's on time and insure that suspension of the draw-downs can be avoided.